

cent.³⁸ The remaining 50 per cent, we assume, is used to reduce bank loans or to purchase liquid assets, at a rate of 5 per cent. The computation for this form of tax cut is summarized in Table 18. The interest rate applicable to a reduction of the corporation income tax is 5.59 per cent.³⁹

TABLE 18. *Summary of Derivation of Interest Rates Applicable to Proportionate Reduction of Corporation Income Tax Payments*

Incidence	Per cent of tax cut	Applicable interest rate (per cent)
Shares of tax cut:		
Shifted to consumers	33.3	5.68
Shifted to wage and salary earners	12.5	5.81
Left as increased corporate earnings	54.2	
Large corporations—Distribution of 75 per cent of total increased corporate earnings:		
47 per cent passed on in dividends	19.1	4.96
53 per cent retained as earnings of which		
10 per cent invested in firm	2.2	21.00
90 per cent reduces debt or loaned in market....	19.4	5.00
Small corporations—Distribution of 25 per cent of total increased corporate earnings:		
35 per cent passed on in dividends	4.7	4.96
65 per cent retained as earnings, of which		
50 per cent is invested in firm	4.4	18.00
50 per cent reduces debt or loaned in market....	4.4	5.00
Average applicable interest rate		5.59

Source: See text.

³⁸ This rate is obtained as follows: In manufacturing, to which 54 per cent of the tax cut accrues, the average rate of return of small corporations was 18 per cent in 1955 (*Quarterly Financial Report, op. cit.*); for utilities, which pay 9 per cent of the tax, the rate is about 10 per cent; and in trade, which pays 18 per cent of the tax, the rate is 20 per cent (footnote 33). The remaining 19 per cent of the tax cut goes to finance, services, and construction; we assume that the average rate for small corporations applies here. A weighted average of these rates yields our estimate.

³⁹ Again making an allowance of 3 per cent for the return accruing to the investors of the additional personal savings, our estimate is raised by .24 percentage points to 5.83 per cent. Were we to assume an extra return of 3 per cent on the funds made available to the capital market by corporations as well,